UNIVERSITY OF JOHANNESBURG

Department of Commercial Accounting

Financial Accounting 3B

SUBJECT CODE BFC3-2

Supplementary Final Assessment Opportunity 2014

Date: December 2014

Time: 180 minutes **Marks: 100**

Assessors: S Miller

Internal Moderator: Mr D van der Watt

External Moderator: Mr Y Yasseen

INSTRUCTIONS:
This paper consists of 13 pages (including the cover page).
Answer all questions.
Show all calculations and workings clearly.
Start each question on a new page in your answer book.
Silent, non-programmable calculators may be used.
Where applicable, round all calculations to the nearest Rand.
All questions require the application of International Financial Reporting Standards .

Question	Topic	Marks	Time
1	Various	13	23 minutes
2	Property, plant and equipment	15	27 minutes
3	Leases	20	36 minutes
4	Investments	22	40 minutes
5	Changes in policy, changes in estimates and errors	8	15 minutes
6	Statements of cash flows	22	39 minutes
		100	**180 minutes**

<u>Question 1</u> (13 marks)

REQUIRED:

Complete the missing word(s):

1.1 _______ and _______ are the fundamental qualitative characteristics of useful financial information in accordance with the *Conceptual Framework for Financial Reporting* (2)

1.2 Financial statements are normally prepared on the assumption that the entity is a _______ and will continue in operation for the foreseeable future in accordance with the *Conceptual Framework for Financial Reporting* (1)

1.3 _______ is the amount by which the carrying amount of an assetexceeds its recoverable amount in accordance with *IAS 16 Property, plant and equipment* (1)

1.4 A lease agreement between Mr. Handy and Mr. Andy was cancelled in the current year. Mr. Handy, the lessor, was requested to pay all the legal costs of cancellation. In accordance with *IAS 17 Leases* the lease should be classified as a / an _____________ lease. (1)

1.5 Dineo Ltd entered into a lease agreement that has minimum lease payments on the lease whose present value amounts to R20 000 000 and the fair value of the asset is R18 500 000. In accordance with *IAS 17 Leases* the lease should be classified as a / an _______ lease. (1)

1.6 Loom band Ltd has an option to acquire the leased building from the lessor at the end of the lease for R1 000 000 000, the market value is predicted at R2 500 000 000. In accordance with *IAS 17 Leases* the lease should be classified as a / an _________________ lease. (1)

1.7 _______ activities are the activities that result in the changes in the size and composition of the equity capital and borrowings of the entity in accordance with *IAS 7 Statement of cash flows.* (1)

1.8 _______ activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents in accordance with *IAS 7 Statement of cash flows.* (1)

1.9 Diesel Ltd had not included R1 500 000 taxable income in their 30 September 2013 Statement of profit or loss and other comprehensive income. This was discovered during the 30 September 2014 reporting period audit. According to *IAS 8 Accounting policies, changes in accounting estimate and errors* this should be accounted for as a / an _______. (1)

Question 1 (continued)

1.10 The management of Roxy Ltd has decided that effective from 1 January 2014 Inventory should be accounted for on the first-in-first-out method. Previously it was accounted for on the average cost basis. According to *IAS 8 Accounting policies, changes in accounting estimate and errors* this should be accounted for as a / an ______________. (1)

1.11 A _______ is defined as a contract that gives rise to a financial asset of one entity, and financial or equity instrument of another entity in accordance with *IAS 32 Financial Instruments: Presentation.* (1)

1.12 __________ are issued by a national government, generally promising to pay a certain amount (the face value) on a certain date, as well as periodic interest payments (1)

[13]

Question 2 **(15 marks)**

Read Me (Pty) Ltd is a magazine publishing company in South Africa.

The following information is available with regards to the property, plant and equipment of Read Me (Pty) Ltd on 30 September 2013:

	Land	**Buildings**	**Equipment**
Cost	R10 000 000	R50 000 000	R100 000 000
Accumulated depreciation	-	R25 000 000	R35 000 000

Additional information:

1. Land:
   - The land was bought on 9 July 2011.
   - On 1 April 2014 land with a carrying value of R1 000 000 as at 1 October 2013 was sold for R1 500 000. The original cost price of the land was R1 000 000.
   - On 30 September 2014 the remaining Land's net replacement value was determined as R7 000 000 by Mr Bookwurm, a sworn appraiser. The reduction in the net replacement value is permanent.

2. Buildings:
   - On 1 October 2013 a new building of R60 000 000 was purchased by the company.
   - On 1 April 2014 an old building with a carrying value of R10 000 000 as at 1 October 2013 was sold for R12 000 000. The original cost price of the building was R15 000 000.
   - Buildings are depreciated at 5% per annum on the straight-lined method.

3. Equipment:
   - On 31 March 2014 equipment, that was originally purchased on 1 October 2012 at R10 000 000, was stolen.
   - On 1 April 2014 the stolen equipment was replace with new equipment to the value of R11 000 000.
   - Equipment is depreciated at 10% on the reduced balance method.

Question 2 (continued)

REQUIRED:

2.1 Calculate the depreciation expense for Buildings and Equipment for the reporting period ended 30 September 2014. (6)

2.2 Prepare the notes to the financial statements of Read Me (Pty) Ltd as at 30 September 2014
Comparative figures are **NOT** required.
The total column is **NOT** required. (9)

Your solution should be prepared in compliance with the applicable IFRS.
Tax and VAT can be ignored as well as any change in estimate and/ or change in accounting policy. **[15]**

Question 3 **(20 marks)**

Movie Music Ltd is involved in the manufacture of music for short films and has recently decided to expand its operations. As a result of this expansion, Movie Music Ltd has entered into two new leases.

The details for the respective leases are as follows:

Machine

The lease commenced 1 January 2012 and will end on 31 December 2016.

There is an option to purchase the machine from the lessor at the end of the lease term at an amount lower than its fair value at that date and the directors have indicated that they will exercise this option.

At commencement of the lease the fair value of the machine is R456 000 and the useful life of the machine is five years.

The effective interest rate for the for the lease is 8,59%.

The following table applies to this lease:

Date	**Payment**	**Interest**	**Capital**
01/01/2012			456 000
31/12/2012	(116 000)	(39 186)	(76 814)
31/12/2013	(116 000)	(32 586)	(83 414)
31/12/2014	(116 000)	(25 416)	(90 584)
31/12/2015	(116 000)	(17 632)	(98 368)
31/12/2016	(116 000)	(9 180)	(106 820)

The lease of the machine is classified as a finance lease in the accounting records of Movie Music Ltd.

Building

This lease also commenced on 1 January 2012, for a period of 3 years.

The rent is payable annually in arrears on 31 December each year. The initial rent was R150 000 for the year ending 31 December 2012 and is to increase by 10% annually.

The lease of the building is classified as an operating lease in the accounting records of Movie Music Ltd.

Question 3 (continued)

REQUIRED:

3.1 Prepare the following notes to the financial statements of Movie Music Ltd as at 31 December 2013:

- Property, plant and equipment (3)
- Finance lease commitments (6)
- Operating lease commitments (1)

Accounting policy notes are not required
Comparatives information is NOT required.
Ignore all tax implications.

3.2 Prepare the relevant sections of the statement of financial position for Movie Music Ltd as at 31 December 2013. (10)

Comparatives information is NOT required.
Ignore all tax implications.

[20]

Question 4 **(22 marks)**

Part A:

Maize Meals (Pty) Ltd was incorporated in 2010. The company began investing in GM maize Limited in January 2013 as shown below:

GM Maize Limited (Listed on the JSE)

12-01-2013	Maize Meals (Pty) Ltd purchased 25 000 ordinary shares @ R40 per share.
30-06-2013	GM Maize Limited had a capitalisation issue of 10 shares for every 100 shares held.
30-09-2013	GM Maize Limited gave its shareholders the “right” to subscribe to 10 shares @ R30 per share for every 100 shares held. The shares were trading at R44 per share on this date.
30-11-2013	Maize Meals (Pty) Ltd exercised its “rights” in full and took up all their “rights” in GM Maize Limited. The shares were trading at R44 per share on this date.
15-12-2013	GM Maize Limited declared and paid a dividend of R3 per share.
31-12-2013	The shares in GM Maize Limited closed for trading at R30 per share.

Additional information

The shares are not regarded as stock for trading purposes but held for capital appreciation over a longer period. It is the policy of Maize Meals (Pty) Ltd to carry investments in shares at fair value and to recognise any fair value adjustments in profit or loss. Any gains or losses on sale are also recognised in profit or loss.

Maize Meals (Pty) Ltd has had R1 100 000 cash at the beginning of the year, and all share purchases were paid for in cash.

REQUIRED:

4.1 Prepare the Investment account in the general ledger of Maize Meals (Pty) Ltd for the reporting period ended 31 December 2013. (8)

Show ALL calculations
Journal narrations are not required and any tax consequences must be ignored

Question 4 (continued)

Part B

The following information relates to **Corny (Pty) Ltd's** investments in marketable securities for the reporting periods ended 31 December 2012 and 2013.

5.7% RSA 157 bond
(Interest payable on 28 February and 31 August of each year)

01-Mar-12	Purchased	R900,000	@ 99.5%
01-Sep-12	Sold	R27,000	@ 101.5%
01-Sep-13	Sold	R100 000	@ 98%

Additional information

Investments in bonds are accounted for on the amortised model on a cost basis.

REQUIRED:

4.2 Prepare the journal entries in the general journal of Corny (Pty) Ltd for the reporting period ended 31 December 2012. (9)

4.3 Prepare an extract form the statement of financial position of Corny (Pty) Ltd as at 31 December 2013 presenting the 5.7% RSA 157 bond and the interest receivable. Comparative figures are not required. (5)

Show ALL calculations
Journal narrations are not required and any tax consequences must be ignored

[22]

Question 5 **(8 marks)**

Logos Limited is a South African company that manufactures building blocks for children to play with.

The following information is provided in relation to its recording equipment:

- Machine 1 was acquired on 1 July 2012 for R2 800 000 and brought into use on the same day. It was considered at that date to have a residual value of R400 000.
- Machine 2 was acquired on 2 January 2013 at a cost of R1 520 000. At that date it was considered to have a residual value of R200 000. Machine 2 was available for use from this date but due to delays in the delivery of materials, it was only brought into use on 1 April 2013.

Machinery is depreciated over an estimated useful life of six years. The company applies the cost model per IAS 16 to all its property, plant and equipment.

On 1 July 2013, due to recent changes in technology, the company decided to change the estimated residual values of the two machines as follows:

- Machine 1's residual value was changed to R200 000; the useful life of the machine remained unchanged.
- Machine 2's estimated remaining useful life was changed to 2 years. The residual value remained unchanged.

All amounts exclude VAT.

REQUIRED:

Provide ALL the journal entries relating to the depreciation of both machines in the books of Logos Limited for the reporting period ended 30 June 2013 and 30 June 2014.

Ignore VAT and any tax consequences.
Journal narrations are not required. **[8]**

Question 6 **(22 marks)**

Chomp Ltd is a company that manufactures tablets for children from the age 3 to 12 to assist them in learning mathematics and language in a fun, interactive environment.

You are the financial manager and you took the only file containing the financial statements home to prepare the cash flow statement for the reporting period ended 30 June 2014. When you switched your laptop on at work the next morning the computer bombed out and you lost all the data. The IT department could however recover the following information:

CHOMP LTD			
Statement of Financial Position as at 30 June 2014			
	Additional Info.	**2014**	**2013**
ASSETS			
Non-current assets		**3 440 000**	**2 560 000**
Investments	1	480 000	360 000
Equipment	2	1 920 000	1 680 000
Motor vehicles	3	1 040 000	520 000
Current assets		**406 100**	**282 000**
Inventory		26 800	37 200
Bank		379 300	244 800
TOTAL ASSETS		**3 846 100**	**2 842 000**
EQUITY AND LIABILITIES			
Equity		**2 698 900**	**1 858 900**
Share Capital	4	400 000	420 000
Retained Earnings		1 898 900	1 198 900
Revaluation Reserve	2	400 000	240 000
Liabilities			
Non-current liabilities			
Long-term loan		640 000	440 000
Current Liabilities		**507 200**	**543 100**
Trade Payables		57 200	110 000
Shareholders for dividends	4	80 000	48 000
Accrued finance costs	5	10 000	4 000
SARS (Income Tax)	6	360 000	381 100
TOTAL EQUITY AND LIABILITIES		**3 846 100**	**2 842 000**

Question 6 (continued)

Additional Information:

1. The company invests any surplus cash it has in GrowthPlus, an interest yielding money market fund registered South Africa. Other income consists only of interest income on this investment. No investments were disposed of in the current year. Total other income for the 2014 reporting period amount to R42 000.

2. The company uses the revaluation model as per *IAS 16, Property, plant and equipment* (IAS 16), to value their computer equipment. The equipment is revalued annually to net replacement cost and accumulated depreciation is eliminated on revaluation. The transfer to revaluation surplus in the current financial period is R160 000.

   On 10 November 2013 the company disposed of desktop computers with a revalued carrying value of R76 000 for R48 000 cash. On 30 November 2013 the company replaces the desktop computers sold with laptops.

3. The company uses the cost model per IAS 16 to value motor vehicles. On 1 July 2013, the company sold an old panel van with a cost of R240 000 and a carrying value of R160 000 for R108 000 cash and purchased a new WV Cabby to replace it. Depreciation on motor vehicles for the reporting period amount to R172 000.

4. On 1 July 2013 the company bought back some of its own shares on the open market at R20 000, after authorisation by the directors.

   On 1 June 2014, the company declared a dividend R80 000 which was to be paid to shareholders on 15 July 2014.

5. According to the statement of profit or loss and other comprehensive income for the reporting period ending 30 June 2014, the finance cost paid amounted to R54 000 and the tax expense to R134 000.

6. All sales are strictly on a cash basis.

7. Included in other expenses are the following items:
   Depreciation expense 352 000

8. Other information that was available:

Cash paid to suppliers and employees	(1 452 400)
Net cash inflow from operating activities	1 106 500
Net cash outflow from investing activities	(1 152 000)

Question 6 (continued)

REQUIRED:

6.1 Calculate the cash paid for the purchase of equipment. Tip: do this calculation in a general ledger account format (5)

6.2 Calculate the cash paid for the purchase of motor vehicles. Tip: do this calculation in a general ledger account format (4)

6.3 Prepare the statement of cash flows for Chomp Ltd for the reporting period ended 30 June 2014. (13)

[22]

Comparatives are NOT required.
Show ALL workings.

Total: 100